

Message Text

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POUCHED FOR INFO TO VANCOUVER AND CALGARY

EO 11652 GDS

TAGS ENRG

SUBJ BRITISH COLUMBIA NATURAL GAS CURTAILMENTS AND PRICE PROPOSAL

REF STATE 8370

1. AMBASSADOR CONTACTED JACK AUSTIN, PRINCIPAL SECRETARY TO PRIME MINISTER, JANUARY 14 TO EXPRESS USG CONCERN OVER CURRENT AND POTENTIAL CURTAILMENT NATURAL GAS EXPORTS TO PACIFIC NORTHWEST AND IMPACT OF PROPOSED PRICE INCREASES ON ECONOMY OF AREA. AMBASSADOR URGED THAT GOC PROVIDE USG OPPORTUNITY TO CONSULT BEFORE ANY DEFINITIVE DECISION MADE. SAME MESSAGE CONVEYED BY DCM TO EXTERNAL AFFAIRS ACTING UNDER SECRETARY JOHN HALSTEAD AND BY ECON COUNSELOR TO GORDON MACNABB, SENIOR ASSISTANT DEPUTY MINISTER, DEPARTMENT OF ENERGY, MINES AND RESOURCES, AND JACK STABBACK, ASSOCIATE VICE CHAIRMAN, NATIONAL ENERGY BOARD (NEB CHAIRMAN MARSHALL CROWE IS OUT OF TOWN).

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2. AUSTIN CONFIRMED THAT B.C. PREMIER BARRETT WOULD BE MEETING

WITH EMR MINISTER DONALD MACDONALD AND ACTING FINANCE MINISTER C.M. DRURY AND GROUP OF OFFICIALS IN AFTERNOON. MEETING HAD BEEN SCHEDULED AT BARRETT'S INITIATIVE AND WAS FOR PURPOSE OF ENABLING BARRETT TO PRESENT HIS PROPOSALS. GOC INTENDED ONLY TO LISTEN. AUSTIN ANTICIPATED THAT NO DECISIONS WOULD COME OUT OF MEETING. HE SAID HE UNDERSTOOD USG CONCERN AND WOULD MAKE SURE THAT AMBASSADOR'S MESSAGE WAS CONVEYED TO PROPER PEOPLE BEFORE MEETING.

3. STABBACK ALSO SAID USG NEED NOT REPEAT NOT WORRY ABOUT DECISIONS COMING OUT OF MEETING. ON PERSONAL BASIS HE VIEWS BARRETT'S PROPOSALS AS "FAR OUT" AND BELIEVES THEY WILL "FALL ON DEAF EARS" IN OTTAWA. GOC "CAN'T DO MORE FOR BARRETT THAN IT HAS BEEN WILLING TO DO FOR ALBERTA AND SASKATCHEWAN." WHILE NEB RECOMMENDATIONS ON NATURAL GAS PROPOSED PHASING IN OF HIGHER PRICE, STABBACK FORESEES NO EARLY MOVE TO RAISE PRICE ABOVE PRESENT \$1.00 LEVEL. RE SHORTFALLS, STABBACK POINTED TO PHYSICAL PROBLEMS IN B.C. BUT COMMENTED THAT UNCERTAINTIES SURROUNDING TAX POLICY ISSUE WERE PROBABLY CAUSING PRODUCERS NOT TO MAKE THEIR BEST EFFORTS TO KEEP GAS FLOWING CURRENTLY, QUITE APART FROM LONGER TERM IMPACT ON EXPLORATION AND DEVELOPMENT. STABBACK AGREED, AGAIN ON PERSONAL BASIS, THAT IT WOULD BE WORTHWHILE TO ARRANGE USG/GOC CONSULTATIONS.

4. MACNABB TOOK NOTE OF U.S. REPRESENTATIONS. HE TOLD ECON COUNSELOR AFTER MEETING (BUT BEFORE HE HAD HAD FEEDBACK FROM MEETING WHICH NEITHER HE NOR DEPUTY MINISTER SHOYAMA ATTENDED) THAT GOC POSITION WAS "CLEARLY TO PUT OFF BARRETT." GOC IS NOT IN SYMPATHY WITH BARRETT'S APPROACH. APPROACH FAVORED BY EMR IS TO PROCEED TO INDEX DOMESTIC NATURAL GAS PRICE TO OIL ON TRUE COMMODITY VALUE BASIS OVER A 3-4 YEAR PERIOD AND THIS WOULD MEAN PHASING IN HIGHER EXPORT PRICE IN PARALLEL. MACNABB SAID, HOWEVER, THAT THERE MIGHT WELL BE SOME FURTHER INCREASE IN EXPORT PRICE DURING COURSE OF 1975 EVEN IF DOMESTIC INDEXATION DID NOT

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OCCUR. MACNABB COMMENTED THAT HE WAS DISAPPOINTED AT ABSENCE SPECIFIC PROPOSALS ON NATURAL GAS PRICE DEREGULATION IN U.S. IN PRESIDENT FORD'S JANUARY 13 ADDRESS. HE SAID IT IS DIFFICULT FOR GOC TO PROCEED WITH DOMESTIC INDEXATION AS LONG AS U.S. MAINTAINS ARTIFICIALLY LOW PRICE BECAUSE CANADIAN DOMESTIC INDUSTRIAL CONSUMERS ARGUE THAT IF CANADIAN PRICE IS HIGHER THAN U.S. PRICE THEIR COMPETITIVE POSITION

WILL SUFFER.

5. HALSTEAD WAS NOT FAMILIAR WITH SUBSTANTIVE DETAILS OF ISSUE BUT LISTENED CAREFULLY AND TOOK NOTE OF USG VIEWS. HE SAID HE WOULD PASS OUR VIEWS ON TO THOSE DIRECTLY CONCERNED.

6. COMMENT: DEPARTMENT SHOULD BE ALERT TO POSSIBLE NEED TO SEND HIGH-LEVEL USG OFFICIAL OR OFFICIALS TO OTTAWA ON RELATIVELY SHORT NOTICE IF GOC AGREES TO PROVIDE OPPORTUNITY FOR CONSULTATIONS.
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